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Summary:

Marshfield Town, Massachusetts; General Obligation

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Summary:

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Credit Profile

US\$35.647 mil GO mun purp loan of bnds ser 2012 dtd 11/01/2012 due 11/01/2032

Long Term Rating

AA/Stable

New

Marshfield Twn GO

Long Term Rating

AA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating to the town of Marshfield, Mass.' series 2012 general obligation (GO) municipal purpose loan bonds and affirmed its 'AA' ratings on the town's GO parity debt. The outlook is stable.

The rating reflects the town's:

- Access to employment centers throughout the Boston metropolitan statistical area;
- Very strong household incomes and below-average unemployment;
- Good financial position and financial management practices; and
- Low debt burden, with a rapid amortization schedule and limited future capital needs.

The town's full faith and credit GO pledge secures the bonds. Marshfield intends to use \$31.1 million of proceeds to fund construction of a new high school, roughly \$2.9 million toward water projects, and the remainder for smaller departmental-level capital projects.

Marshfield, with an estimated population of 24,914, is on the Atlantic Coast, about 32 miles south of Boston. The town is a suburban community with good access to downtown Boston, benefiting employment and household incomes. As of July 2012, unemployment, at 5.1%, remained below the commonwealth rate and well below the national rate. In addition, the 2011 median household effective buying income remained very strong, in our view, at 151% of the national level. Per capita effective buying income is also very strong at 141% of the national level.

Since 2003, the town's full assessed valuation (AV) increased considerably due, in large part, to its higher-end residential waterfront development and its strong growth in real estate values. The tax base makeup is overwhelmingly residential, accounting for 93% of AV, while commercial properties account for just 5%. Due to the national housing slump, AV has declined 14% since 2008. However, residential AV totals \$4.2 billion in 2012, essentially flat from the previous year. While Standard & Poor's believes there are signs of property values stabilizing, it is currently uncertain when that will be reflected in future AV. Standard & Poor's economic forecast show that median New England home prices should remain stable, if not grow modestly, through 2013. On the whole, the town's per capita market value remains extremely strong, in our view, at \$168,592. Given its residential nature, we consider the tax base very diverse,

with the top 10 taxpayers accounting for 4% of fiscal 2012 AV.

The town's financial position remains stable with good reserves, in large part due to stronger fiscal management practices. In 2008, following several years of decreasing reserves, a strategic fiscal planning task force was created to help set standards for forecasting, budget growth, capital planning, and reserves. These efforts have enabled management to identify and make the necessary budgetary adjustment in a timely manner, ensuring greater financial stability. We acknowledge budgeting challenges remain, however.

At the end of fiscal 2011, the general fund closed with a balance of \$5 million, or 6.4% of expenditures, of which \$4.7 million (5.9% of expenditures) was unassigned. Included in the unassigned general fund are the town's stabilization reserves, which it can only use with a supermajority vote of the town's selectman.

For fiscal 2012, while still unaudited, management is reporting higher fund balances, reflecting positive operating variances in the general fund. Marshfield is reporting a total fund balance of \$5.3 million, and an unassigned general fund balance of \$5.1 million. Given these projections, we believe the town maintains good operating flexibility.

Marshfield still faces near-term budgetary hurdles in this economy, but management continues to make budget adjustments to minimize the use of reserves. For fiscal 2013, as of October, management reports that total revenues and expenditures are tracking on budget and that available reserves should remain in line with years past. The overall budget represents an increase of 2% from the previous year, totaling \$73.9 million. The local property tax, which we view as a stable revenue source, generates nearly 63% of total operating revenues. Tax collections remain strong, in our view, and have been above 97% of the tax levy annually in each of the past five years, and, according to management, collections did not deviate from that level in 2012.

Standard & Poor's considers Marshfield's financial management practices "good" under its Financial Management Assessment methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include a good focus on financial and capital planning, demonstrated by the town's five-year capital improvement program, which sets the parameters and outlays the funding for both debt and nondebt financing of all the capital projects within the plan, and its five-year budget forecast, which identifies future revenue and expenditure trends. Budget assumptions are done conservatively and monitoring of budget performance is conducted monthly, along with investment performance.

The town recently adopted a reserve fund policy that manages several reserve accounts. The town considers the stabilization account its main reserve account, and the policy requires, at minimum, 5% of general fund revenues. While Marshfield is not currently at that level, management remains adamant about building reserves and meeting the target. We note, the town's total available reserves are above 5%.

In our opinion, Marshfield's debt profile is favorable. Including this bond issue, overall net debt, after accounting for self-supporting enterprise debt and school construction grants, is low at \$1,865 per capita, or 1.1% of true value. The town's debt service carrying charge is low at 6% of expenditures. The debt service carrying charge is likely to rise with this issuance, but it remains moderate, in our opinion. In addition, debt service on the school bonds is excluded from Proposition 2-½ levy limitations. The principal amortization remains aggressive with 71% of existing debt being retired by 2022 and 100% by 2033.

Marshfield's other postemployment benefits (OPEB) unfunded actuarial accrued liability was \$82.2 million as of June 30, 2011. The town has established a trust fund and has begun funding against the liability, albeit with only modest amounts. In fiscal 2011, the OPEB annual required contribution (ARC), assuming an investment-rate return of 4.5%, was \$5.3 million (roughly 7% of general fund expenditures), and the town's actual payment was \$2.1 million, or 40% of the ARC.

For its pension liabilities, the town contributes to the Plymouth County retirement system. Marshfield's share of the estimated unfunded liability is roughly \$41.1 million. The town's fiscal 2013 pension contribution was \$4.2 million, roughly 6% of budgetary expenditures. Contributions to the plan have risen in recent years. Plymouth County has adopted a funding schedule to fully fund the pension liability by the year 2030.

Outlook

The stable outlook reflects our expectation that the town will continue to make the necessary adjustments to keep budgetary balance. It also reflects the town's largely stable economy and strong wealth and incomes. We do not expect the rating will change within the two-year parameter of the outlook based on our view that Marshfield will likely maintain good reserves. Moreover, the town's low debt burden, aggressive amortization schedule, and limited future capital needs provide additional stability to the rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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